

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 STR-04 CEA-01 TAR-01

FMC-02 DOTE-00 PA-02 PRS-01 L-03 H-02 SS-15 NSC-05

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INFO AMEMBASSY BRASILIA

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TAGS: ETRD, UY

SUBJ: URUGUAYAN ECONOMIC REFORM MAINTAINS MOMENTUM

REF: A) MVD 1748 B) MVD A-060, 5/16/75

1. SUMMARY: THE GOU CONTINUES STENS TOWARD ECONOMIC LIBERALIZATION. MOST RECENT MEASURES INCLUDE ABOLITION OF 35 PER CENT MINIMUM DEPOSIT ON AGRICULTURAL INPUT IMPORTS AND TEMPORARY SUSEPNSION OF AUTOMOBILE AND TRACTOR IMPORTS. MINECON VEGH REPORTEDLY TOLD PROECTED INDUSTRIES THAT THEY WOULD HAVE TO BECOME MORE EFFICIENT TO SURVIVE. END SUMMARY.

2. THE GOU ANNOUNCED ON JUNE 5 THAT AGRICULTURAL INPUTS, SUCH AS FERTILIZERS AND PESTICIDES WOULD BE THE FIRST IMPORTS EXEMPTED FROM THE 35 PERCENT MINIMUM DEPOSIT (CONSIGNA- CION MINIMA). THIS COMES SON AFTER THE ELIMINATION F IMPORT QUOTAS AND THE REPLACEMENT OF THE COMPLICATED SYSTEM OF ADDITIONAL PRIOR DEPOSITS (CONSIGNACIONES) BY THE SINGLE MINIMU DEPOSIT (REF A). THE CENTRAL BANK IS NOW DRAWING UP A LIST OF UNCLASSIFIED

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THOSE PRODUCTS WHICH WILL BE CONSIDERED AGRICULTURAL INPUTS AND THUS

NOT REQUIRE IMPORTERS TO DEPOSIT WITH THE CENTRAL BANK 35 PER CENT OF THE PRODUCT'S VALUE IN A NON-INTEREST BEARING ACCOUNT FOR FIVE MONTHS.

3. IMPORTS OF ASSEMBLED AUTOMOBILES HAVE BEEN SUSPENDED UNTIL NOVEMBER 30 AND TRACTORS AND TRUCKS UNTIL 15. PREVIOUS IMPORT QUOTA SYSTEM PROTECTED LOCAL ASSEMBLY PLANTS. ALTHOUGH AT FIRST GLANCE A REIMPOSITION OF CONTROLS, ASSEMBLY INDUSTRY HERE OCCUPIES UNIQUE POSITION DUE TO INFLATED VALUES OF VEHICLE IN URUGUAY MARKET. THE NEW DECREE DIRECTS GOU AUTOMOTIVE COMMISSION TO DETERMINE WHAT PROTECTION MUST BE GIVEN WHEN IMPORTS ARE DECONTROLLED AND PROVIDES GUIDANCE FOR THIS DETERMINATION. DECREE STATES THAT "IMPORTATION OF ASSEMBLED AUTOMOBILES CAN BE A MARKET REGULATING FACTOR WHICH COULD BE AN INCENTIVE TO (LOCAL) INDUSTRY TO ATTAIN HIGHER LEVELS OF EFFICIENCY" AND THAT "THE GOAL OF THE EXECUTIVE BRANCH IS THAT AGRICULTURAL PRODUCTION WHICH MUST COMPETE IN THE INTERNATIONAL MARKET, SHOULD NOT FIND ITSELF BURDENED BY THE INEFFICIENCY OF OTHER INDUSTRIAL SECTORS."

4. SPEAKING TO REPORTED IN AN INTERVIEW PUBLISHED JUNE 8, MINECON VEGH VILLEGAS EMPHASIZED GOU GOALS WHEN ASKED WHAT WOULD HAPPEN TO LOCAL INDUSTRIES WHO ARE NOW GOING TO HAVE TO COMPETE WITH LOWER COST FOREIGN MERCHANDISE. VEGH REPLIED THAT "THERE IS STILL A SYSTEM OF IMPORT DUTIES AND CUSTOMS CHARGES WHICH ARE VERY HIGH. THE INDUSTRY THAT CANNOT COMPETE IN SPITE OF THESE BARRIERS IS ONE THAT IT IS NOT IN THE INTERESTS OF THE COUNTRY (TO HAVE). IT MEANS IT IS INEFFICIENT, AND IT WILL HAVE TO LOWER ITS COSTS OR DISAPPEAR. I BELIEVE WE HAVE TO END THE POLICY OF PRODUCING (LOCALLY) AT ANY COST. WE HAVE TO PRODUCE ONLY THAT WHICH HAS A REASONABLE COST."

5. COMMENT: REPRESENTATIVES OF A WIDE RANGE OF LOCAL INDUSTRIES HAVE MAINTAINED THAT THE 35 PERCENT CONSIGNACION MINIMA IS UNFAIRLY DAMAGING TO THEIR INDUSTRIES IN PARTICULAR. THE EMBASSY UNDERSTANDS THAT THE AGRICULTURAL SECTOR MADE STRONG AND APPARENTLY SUCCESSFUL ARGUMENTS TO THE MINISTRIES OF AGRICULTURE AND ECONOMY TO EXEMPT AGRICULTURAL INPUTS. A MEDIUM LEVEL CENTRAL BANK OFFICIAL COMMENTED TO EMBOFFS HIS CONCERN THAT, ONCE STARTED, IT WOULD BE DIFFICULT TO STOP EXCEPTIONS.

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NEVERTHELESS, THE GOU'S EVENTUAL GOAL IS TO ELIMINATE THE CONSIGNACION MINIMA AS SOON AS FEASIBLE, IT BEING PRIMARILY AN ANTI-INFLATION MEASURE. EXEMPTION OF AGRICULTURAL INPUTS COINCIDES WITH THE GOU'S ANNOUNCED GOALS OF PROMOTING DOMESTIC AGRICULTURE AND ITS RELATED INDUSTRIES. THE EXEMPTION AND THE LANGUAGE OF BOTH THE AUTOMOBILE IMPORT SUSPENSION DECREE AND THE VEGH INTERVIEW ATTEST TO THE CONTINUED DETERMINATION OF THE GOU TO REFORM AND LIBERALIZE THE COUNTRY'S ECONOMY. MORE

IMPORTANTLY, VEGH'S STATEMENT REPRESENTS THE FIRST DIRECT
PUBLIC STATEMENT BY A HIGH LEVEL GOU OFFICIAL OF WHAT MAY HAVE
PREVIOUSLY BEEN UNDERSTOOD BY THE PUBLIC BUT NOT ENUNCIATED.
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